Supreme Court, U.S.
FILED
APR 14 1987
JOSEPH F. SPANIOL, JR.
CLERK

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No. 87-

In the

Supreme Court of the United States

October Term, 1987

NICOLET INSTRUMENT CORPORATION,
a Wisconsin corporation,

Petitioner,

vs.

BIO-RAD LABORATORIES, INC.,
a Delaware corporation,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT AND APPENDIX

LINDQUIST & VENNUM
ROBERT J. SHERAN
(Counsel of Record)
DAVID A. ALLGEYER
STEVEN E. RAU
4200 IDS Center
80 South Eighth Street
Minneapolis, Minnesota 55402
Telephone: (612) 371-3211

1987 — Bachman Printing, 835 Second Avenue So., Mpls., MN 55402 — (612) 339-9518

38 pp

QUESTIONS PRESENTED

1. Did the Court of Appeals for the Federal Circuit impermissibly narrow the range of discretion available to a trial judge in determining the amount of prejudgment interest to be awarded in a patent infringement suit?

2. Should the Court of Appeals for the Federal Circuit have rejected Justice Stevens' view that prejudgment interest may be limited or denied where a strong challenge to the patent is present?

RULE 28.1 IDENTIFICATION OF SUBSIDIARIES (EXCEPT WHOLLY OWNED SUBSIDIARIES) OF PETITIONER

Nicolet Instrument S.A. de C.V., Mexico.

PETITION FOR WRIT OF CERTIORARI

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No. 87-

IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1987

NICOLET INSTRUMENT CORPORATION,
a Wisconsin corporation,

Petitioner,

v.

BIO-RAD LABORATORIES, INC.,
a Delaware corporation,

Respondent.

PETITION FOR WRIT OF CERTORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

Petitioner respectfully prays that a Writ of Certiorari issue to review the judgment and opinion of the United States Court of Appeals for the Federal Circuit (the "CAFC"), entered in this action on December 16, 1986, petition for rehearing denied on January 20, 1987 and suggestion for rehearing *in banc* denied on February 2, 1987.

OPINIONS BELOW

The Opinion (A-1) of the panel of the CAFC below is at 807 F.2d 964 (Fed. Cir. 1986) and at 1 U.S.P.Q. 2d 1191. The Order (A-15) of the CAFC denying the petition for rehearing is unreported, as is the order denying the suggestion for rehearing *in banc*. (A-16)

The trial court's Order (A-12) governing the award of prejudgment interest is also unreported.

JURISDICTION

The decision of the CAFC in this case was entered on December 16, 1986. Orders denying Nicolet's petition for rehearing and suggestion for rehearing *in banc* were entered on January 20, 1987 and February 2, 1987, respectively. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. §1254(1) and Rule 17 of this Court's rules.

CONSTITUTIONAL PROVISIONS AND STATUTES INVOLVED

Article I, Section 8 of the United States Constitution provides in pertinent part:

> The Congress shall have Power . . . (8) To Promote the progress of science and useful arts, by securing for limited times to authors and inventors, the exclusive right to their respective writings and discoveries.

35 U.S.C. §284 provides in pertinent part:

> Upon finding for the claimant, the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interests and costs as fixed by the court.
>
> When the damages are not found by a jury, the court shall assess them. In either event, the court may increase the damages up to three times the amount found or assessed.
>
> The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

STATEMENT OF THE CASE

This suit was filed by respondent Bio-Rad on June 22, 1981. Bio-Rad alleged Nicolet infringed U.S. Patent No. 3,319,515 (the "515 Patent"). Nicolet denied infringement, contested the validity of the patent and asserted affirmative defenses and antitrust counterclaims. Trial commenced on October 5, 1982. On December 23, 1982, the jury rendered is verdict, finding that Nicolet infringed the 515 Patent, that each of the seven claims of the 515 Patent was valid, that Nicolet had not willfully infringed that patent, that Bio-Rad had been damaged by the infringement in the amount of $3,078.000, and that Bio-Rad had not been guilty of any antitrust violations. Nicolet's posttrial motions for a new trial, judgment N.O.V. and to deny enforcement of the patent because of misuse, were all denied.

Bio-Rad's motion for prejudgment interest from the dates of infringement was denied. Postjudgment interest was awarded on the principal amount of the judgment.

Nicolet appealed to the Court of Appeals for the Federal Circuit, where the jury verdict and the judgment of the district court were affirmed. Bio-Rad cross-appealed from the denial of prejudgment interest, and CAFC vacated the district court's denial and remanded in light of this Court's decision in *General Motors Corp v. Devex Corp.*, 461 U.S. 648 (1983) *("Devex")*.

Nicolet's petition for rehearing was denied. Nicolet's petition for a writ of certiorari to the United States Supreme Court was also denied.

On remand, by judgment entered December 9, 1985, the district court awarded prejudgment interest of $161,595. Bio-Rad requested the trial court to award it the highest rate of interest for the longest peiod of time allowable under the law. The trial court denied Bio-Rad's request, relying on its findings that Bio-Rad's conduct during discovery entitled it to only nine months of prejudgment interest and that the conduct of Bio-Rad's counsel during the discovery process should be considered in determining the award of prejudgment interest. Regarding Bio-Rad's abuse of the discovery process, the district court commented:

> I really think that this court may very well have participated in a miscarriage of justice, insofar as the denial of discovery in

those areas which are claimed to have been privileged. . . . I think, had the material been available before trial, and utilized during trial — it might be that I am too far removed from the patent field to fully appreciate the niceties of patent law — but a good personal injury lawyer would have taken that plaintiff's case apart on the fraud issue. . . . All in all I think that this case is a very good example of where the admixture of privilege and percipient witness on the part of lawyers has been misused or misconstructed.

I think that the reviews of the lawyer, which have been categorized as privileged, but which would have necessarily been known to a party who must proceed in this litigation in good faith, should have been patently available to the defendant right from the start. The importance of that particular document — or not document — series of documents, as well as the manipulation that went through the negotiations between the inventor and the licensee later on, I don't think were fully explored.

(A-19-20 Transcript of April 12, 1985 hearing at 21-23.)

Bio-Rad appealed from the district court's judgment. On December 16, 1986, the CAFC vacated and remanded the district court's award of prejudgment interest. In so doing, it held that Bio-Rad's abuse of the discovery process should not have been taken into account by the district court in limiting the amount of prejudgment interest because it did not actually delay the trial. It also rejected outright Justice Stevens' reasoning in his concurring opinion in *Devex* that a strong challenge to the patent can justify a reduced award of prejudgment interest. Nicolet's petition for rehearing was denied on January 20, 1987, and Nicolet's suggestion for a rehearing *in banc* was denied on February 17, 1987.

REASONS FOR GRANTING THE WRIT

The Writ should be granted in this case because the Court of Appeals has by its decision placed unauthorized restraints on the discretion of trial courts to control prejudgment interest in patent

cases contrary to the direction of the United States Supreme Court in *General Motors Corp. v. Devex*, 461 U.S. 648 (1983).

I. THE COURT OF APPEALS FOR THE FEDERAL CIRCUIT IMPERMISSIBLY NARROWED THE RANGE OF DISCRETION AVAILABLE TO THE TRIAL COURTS IN DETERMINING THE AMOUNT OF PREJUDGMENT INTEREST TO BE AWARDED IN PATENT INFRINGEMENT SUITS.

In this case, the CAFC determined "whether the [district] court improperly limited the amount of prejudgment interest awarded to the prevailing plaintiff in a patent suit." *Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp.*, 807 F.2d 964, 965 (Fed. Cir. 1986) (A-3). It held that the district court has abused its discretion in limiting the amount of prejudgment interest based upon its finding that Bio-Rad had delayed and abused the discovery process. In so doing, the CAFC unreasonably narrowed the range of discretion accorded to district courts by this Court's decision in *General Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983) *("Devex")*.

In *General Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983), this Court held, under 35 U.S.C. §284 (1982), which provides that a party successfully establishing patent infringement is entitled to compensatory damages, that:

> prejudgment interest should ordinarily be awarded. In the typical case an award of prejudgment interest is necessary to ensure that the patent owner is placed in as good a position as he would have been had the infringer entered into a reasonable royalty agreement. An award of interest from the time that the royalty payments would have been received merely serves to make the patent owner whole, since his damages consist not only of the value of the royalty payments but also of the foregone use of the money between the time of the infringement and the date of the judgment.

Id. at 655-66.

Significantly, the Court did not

> construe §284 as requiring the award of prejudgment interest whenever infringement is found. That provision states that

> interest shall be "fixed by the court," and in our view it leaves the court some discretion in awarding prejudgment interest. For example, it may be appropriate to limit prejudgment interest, or perhaps even deny it altogether, where the patent owner has been responsible for undue delay in prosecuting the lawsuit. There may be other circumstances in which it may be appropriate not to award prejudgment interest. We need not delineate those circumstances in this case.

Id. at 656-57.

In the present case, the CAFC found that the district court's award to Bio-Rad of prejudgment interest for a nine-month period, based upon the state of California's rate of prejudgment interest of 7%, uncompounded, was an abuse of discretion. The panel reached its holding based on the factors outlined in its decision in *Radio Steel & Manufacturing Co. v. MTD Products,* 788 F.2d 1554, 1557-1558 (Fed. Cir. 1986).

In *Radio Steel,* a panel of the CAFC held that a district court's justification for limiting prejudgment interest "must have some relationship to the award of prejudgment interest." *Radio Steel & Manufacturing Co. v. MTD Products,* 788 F.2d at 1557, 1558. The CAFC engrafted this new condition on to the standard set forth in *Devex.* As a consequence, the CAFC found in the present case that Bio-Rad's dilatory action during the discovery process should not have been taken into account when determining entitlement to prejudgment interest. This was so, said the CAFC, because the actions of Bio-Rad did not actually delay the trial. *Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp.,* 807 F.2d at 968 (A-8). In short, the CAFC held that abuse and delay of the discovery process is not a matter that can be addressed by the trial court in its discretion when determining entitlement to prejudgment interest.

Taken together, the *Radio Steel* decision and the decision in this case have the practical effect of allowing a district court to exercise its discretion to limit or reduce an award of prejudgment interest only where conduct on the part of the patentee delays the trial and judgment. Under this holding, the trial court cannot inform itself as to factors relating to an award of prejudgment interest other than such possible delay. This ignores the clear language of the Court in *Devex,* which limited its holding to the proposition that prejudgment

interest should be awarded under §284 "absent some justification for withholding such an award." *Devex* 461 U.S. at 657. It further ignores this Court's recognition that there are reasons other than undue delay in prosecuting a lawsuit which could justify withholding a reduction of such an award. *Id.*

In this case the district court held that prejudgment interest should be limited because:

> (1) Bio-Rad's conduct during discovery led to unreasonable delays in bringing the case to trail and in entry of judgment; (2) but for those delays, trial of the case could have commenced in nine months, rather than in the approximately fifteen month period actually consumed from the filing of the Complaint on June 22, 1981 until commencement of trial on October 5, 1982 and judgment could therefore have been entered earlier; (3) all but nine months of the time spent by Bio-Rad in prosecuting the case prior to commencement of trial represents a period of undue delay and Bio-Rad should not be awarded prejudgment interest for that period of delay; (4) Bio-Rad's counsel engaged in dilatory actions during the discovery process, which should be taken into account when determining Bio-Rad's entitlement to prejudgment interest; and (5) based on the findings (1), (2), (3) and (4) above, the appropriate term over which prejudgment interest should be calculated is nine months and an approriate rate of interest in this case is the California State Rate of prejudgment interest, seven percent, uncompounded.

(A-12–13). Indeed, the district court found that there may have been a "miscarriage of justice," based on Bio-Rad's conduct. If a district court does not have discretion to limit prejudgment interest in this situation, it is difficult to envision any situation where the court could meaningfully exercise such discretion.

In an era where the judicial system is struggling to deal effectively with abuses of the discovery process, it would be unwise to limit trial courts' ability to consider discovery abuse in determining compensation. Trial courts should not be required to further reward a party who abused the discovery process with an award of prejudgment interest at a rate higher than equity would justify. Yet the CAFC's limitation of the discretion afforded trial courts in *Devex* requires that such a reward be given.

The CAFC's decision has implications beyond crippling the trial court's discretion to limit prejudgment interest based on discovery abuses. By holding that a district court may consider only delay in bringing a case to trial in exercising its discretion over prejudgment interst awards, the CAFC has, in fact, destroyed the trial court's discretion. The district court is allowed to engage only in making a factual determination whether a party has delayed commencement of the trial. This is not a genuine exercise of discretion, but merely applies fact-finding to a legal standard. This case provides the Court an opportunity to make it clear that the *Devex* opinion grants some measure of meaningful discretion to the trial court and permits the trial court to exert discipline over the litigation process.

II. THE COURT OF APPEALS FOR THE FEDERAL CIRCUIT IMPROPERLY REJECTED JUSTICE STEVENS' VIEW THAT PREJUDGMENT INTEREST MAY BE LIMITED OR DENIED WHERE A STRONG CHALLENGE TO THE PATENT IS PRESENT.

In *Devex*, Justice Stevens made the following observation in his concurring opinion:

> Wisely today the Court does not attempt to define precisely the category of cases in which an infringer, through ultimately unsuccessful in litigation, may have been sufficiently justified in its challenge to a particular patent to make it appropriate for the District Court to exercise its discretion to deny prejudgment interest. But the existence of that category of cases should not be overlooked.

461 U.S. at 659.

In additon to the grouds relied upon by the trial court for the limiting of prejudgment interest, Nicolet urged at the trial court and on appeal that its strong challenge to the patent justified a reduced award under Justice Stevens' reasoning in *Devex*. In support of this, it noted the many challenges to patent validity and infringement, supported by the record, which were raised at trial and on appeal.

This included evidence, for example, that: (1) before undertaking its challenge to the patent Nicolet had an opinion by competent counsel that the patent was invalid and not infringed; (2) patent

counsel from Digilab, now a division of Bio-Rad, had earlier questioned the validity of the patent and recommended that no suit be brought under the patent; and (3) and an antitrust expert had advised Bio-Rad's predecessor in interest not to undertake the cost of defense of the patent in exchange for the payment of royalties because such an arrangement would be illegal by virtue of furthering an antitrust conspiracy using a fraudulently obtained patent. In addition, Nicolet had presented expert testimony concerning invalidity and lack of infringement providing a strong, well-justified challenge to the patent. Nicolet further noted that the CAFC, in its first opinion, had dealt seriously with Nicolet's many defenses, finding none of them frivolous.

In rejecting Nicolet's position, the CAFC did not speak to the strength of Nicolet's challenge to the patent. Rather, it stated:

> Nicolet's contention that its challenges to the patent were "well justified" reflects the position of Justice Stevens in his concurring opinion in *Devex*. We implicitly rejected that position in *Radio Steel*, where we ruled that the justification for an award of prejudgment interest "must have some relationship to the award of prejudgment interest." [citation omitted]

Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp., 807 F.2d at 969 (A-10). This implicit rejection in *Radio Steel* was made explicit by the CAFC in this case as it further noted: "the merits of the infringer's challenges to the patent are immaterial in determining the amount of prejudgement interest." *Id.*

This case provides an opportunity for this Court to consider whether the CAFC's outright rejection of Justice Stevens' position was proper.

III. THE PROPER BASIS UNDER WHICH AN AWARD OF PREJUDGMENT INTEREST PURSUANT TO 35 U.S.C. §284 CAN BE LIMITED IS A SIGNIFICANT AND IMPORTANT ISSUE THAT REQUIRES RESOLUTION FOR THE PATENT LAWS TO BE EFFECTIVELY AND EQUITABLY ENFORCED.

The parameters governing a district court's discretion to limit the award of prejudgment interest is an issue of intrinsic importance concerning damage awards in patent infringement actions. The

principles governing a trial court's discretion to limit prejudment interest concern the public, other parties involved in patent infringement litigation and the parties to this litigation. Under the standards governing the issuance of a writ of certiorari, this case merits review because it involves an important and significant issue. *See, e.g., NLRB v. Pittsburg S.S. Co.,* 340 U.S. 498, 502 (1951); *U.S. v. Ruzicka,* 329 U.S. 287, 295 (1946). Resolution of this issue by this Court would provide district courts and the CAFC with guidelines concerning the justifications under which a district court may limit appropriately the award of prejudgment interest.

The problem posed by the absence of guidance from this Court with respect to appropriate limitations of prejudgment interest awards is not merely academic or episodic. *See Rice v. Sioux City Cemetery,* 349 U.S. 70, 74 (1955). This problem arises in the context of every patent infringement action that is litigated successfully by the patentee in federal district court. Consequently, resolution of the issue is important because it concerns an important and recurring problem. The issue posed by the case does not concern the typical issues raised in appeals of patent cases such as invention, breadth of claim, obviousness and noninfringement; Nicolet recognizes that this Court does not ordinarily grant a writ of certiorari in such cases. *See, e.g., General Talking Pictures Corp. v. Western Electric Co.,* 304 U.S. 175, 178 (1938); *United States v. Johnston,* 268 U.S. 220, 227 (1925); *Keller v. Adams-Campbell Co.,* 264 U.S. 314, 319 (1924). A decision by this Court would serve judicial efficiency by precluding further appeals or appealable issues concerning the limitation of an award of prejudgment interest under 35 U.S.C. §284.

CONCLUSION

The Court of Appeals for the Federal Circuit limited the discretion afforded by this Court in *Devex* so severely that district courts do not have any real discretion in determining an award of prejudgment interest. In the present case, the CAFC held, in fact, that even abuse and delay of the discovery process cannot justify a reduction of prejudgment interest unless the trial is actually delayed. This unnecessarily deprives district courts of one of the means at their disposal to deter discovery abuse. This case affords this Court an opportunity to restore the discretion afforded to the district courts by the *Devex* decision.

The CAFC rejected Justice Stevens' reasoning that prejudgment interest could be limited when a challenge to a patent was well-justified. This case presents the Court with an opportunity to determine whether it was proper to do so.

Dated: April 13, 1987

Respectfully submitted,

LINDQUIST & VENNUM

|S| Robert J. Sheran

Robert J. Sheran
(Counsel of Record)
David A. Allgeyer
Steven E. Rau
4200 IDS Center
80 South Eighth Street
Minneapolis, MN 55402
(612) 371-3211

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APPENDIX

Appeal No. 86-840

United States Court of Appeals
for the Federal Circuit

BIO-RAD LABORATORIES, INC., ETC.,
Appellant,

v.

NICOLET INSTRUMENT CORPORATION, ETC.,
Appellee.

Roger L. Cook, Townsend & Townsend, of San Francisco, California, argued for appellant. With him on the brief were *J. Georg Seka, David N. Slone* and *Robert Barr.*

Robert J. Sheran, Lindquist & Vennum, of Minneapolis, Minnesota, argued for appellee. With him on the brief was *Robert J. Sheran.*

Appealed from: U.S. District Court for the Northern District of California

Judge Burke

NOTICE TO COUNSEL

The Court today announced its decision in the attached appeal or appeals.

A copy of the Court's opinion or opinions is enclosed, and judgment thereon has been entered today as required by Rule 36, Federal Rules of Appellate Procedure.

Costs may be recovered (by *Petitioner or Respondent)* as provided by Rule 39, Federal Rules of Appellate Procedure.

If sanctions have been imposed, please make check payable to the U.S. Treasury and forward same to the opposing attorney of record.

Very Truly yours,

Francis X. Gindhart, Clerk
By: Spencer C. Mieone, Deputy Clerk

Appeal No. 86-840

United States Court of Appeals
for the Federal Circuit

BIO-RAD LABORATORIES, INC., ETC.,
Appellant,

v.

NICOLET INSTRUMENT CORPORATION, ETC.,
Appellee.

DECIDED: December 16, 1986

Before FRIEDMAN, *Circuit Judge*, and NICHOLS and BALDWIN, *Senior Circuit Judges*.*

FRIEDMAN, Circuit Judge.

The sole issue in this case, here on appeal from an order of the United States District Court for the Northern District of California, is whether the court improperly limited the amount of prejudgment interest awarded to the prevailing plaintiff in a patent suit. The award of prejudgment interest was made pursuant to our remand in the earlier appeal in this case. *Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp.*, 739 F.2d 604, 222 USPQ 654 (Fed. Cir.), *cert. denied*, 469 U.S. 1038 (1984). We vacate the district court's award of prejudgment interest and remand for further proceedings in accordance with this opinion.

I

A. In June 1980, appellant Bio-Rad Laboratories, Inc. (Bio-Rad) informed appellee Nicolet Instrument Corporation (Nicolet) that Nicolet's "MX-ECO" epitaxial thickness gauge, an electronic device that rapidly measures the crystalline surface layer on semiconductors, which Nicolet had begun selling in 1980, appeared to infringe U.S. Patent No. 3,319,515, of which Bio-Rad was the exclusive licensee. Bio-Rad demanded that Nicolet cease all infringing activities.

Nicolet denied infringement, disputed the validity of the patent, and continued its activities. The parties exchanged contentions through letters dated August 4, 1980, September 9, 1980, and October 30, 1980, but were unable to resolve the dispute.

Bio-Rad filed suit on June 22, 1981. At the first status conference, held in November 1981, a discovery schedule was established and trial was scheduled for October 4, 1982. During discovery, Bio-Rad resisted producing a number of documents — the record is ambiguous regarding the sequence of actions by counsel for the parties, the district judge, and the magistrate in charge of discovery. Although Nicolet alleges that Bio-Rad wrongfully withheld documents that were ordered produced, Nicolet did not seek and the court did not impose sanctions for Bio-Rad's conduct.

*Judge Baldwin took senior status on November 25, 1986

After a 44-day jury trial before Judge Burke, to whom the case was assigned four days before the trial began on October 5, 1982, the jury found all claims of the patent valid and infringed, and awarded Bio-Rad $3,078,000 in compensatory damages. Nicolet moved for judgment notwithstanding the verdict, alternatively for a new trial, and to deny enforcement of the patent for misuse. The trial court denied all three motions, and entered judgment on the verdict effective January 7, 1983. The court granted postjudgment but denied prejudgment interest.

In the prior appeal, we affirmed district court's judgment in all respects other than the denial of prejudgment interest. We vacated that denial and remanded to the district court "for an award of prejudgment interest or a determination that some specific justification exists for denying prejudgment interest." 739 F.2d at 618, 222 USPQ at 665.

B. On remand to the district court, Bio-Rad sought prejudgment interest at the rate of 15 percent, based on the average rate it paid on its corporate borrowings from early 1980 through the end of the trial in December 1982. At a hearing, the district court requested that Bio-Rad submit a modified calculation, using the rate that a "reasonably sound corporate borrower" would have paid during the period in question, and calculated from the date of each infringement, adjusted for the normal time lag between delivery and payment. Bio-Rad submitted the requested calculation, using the average annual prime rate, compounded annually. Bio-Rad also submitted Federal Reserve statistics and an affidavit of an expert supporting its new calculations. The revised calculation resulted in $737,074 prejudgment interest through June 28, 1985.

Nicolet apparently presented no evidence or argument regarding appropriate prejudgment interest, but instead urged the trial court to deny or reduce Bio-Rad's prejudgment interest because of Bio-Rad's recalcitrance in producing documents before and during the trial.

In a brief order, the district court awarded Bio-Rad prejudgment interest for a nine-month period, based upon "the California state rate of prejudgment interest, 7%, uncompounded," of $161,595. The court made the following findings explaining the basis for that award:

> (1) Bio-Rad's conduct during discovery led to unreasonable delays in bringing the case to trial and in entry of judgment; (2)

but for those delays, trial of the case could have commenced in nine months, rather than in the approximately 15 month period actually consumed from filing of the Complaint on June 22, 1981 until commencement of trial on October 4 [sic: 5], 1982 and judgment could therefore have been entered earlier; (3) all but 9 months of the time spent by Bio-Rad in prosecuting the case prior to commencement of trial represents a period of undue delay and Bio-Rad should not be awarded prejudgment interest for that period of delay; (4) Bio-Rad's counsel engaged in dilatory action during the discovery process, which should be taken into account when determining Bio-Rad's entitlement to prejudgment interest; and (5) based on the findings (1), (2), (3) and (4) above, the appropriate term over which prejudgment interest shall be calculated is nine months and an appropriate rate of interest in this case is the California state rate of prejudgment interest, 7%, uncompounded.

The Court recognizes the necessarily inexact nature of its finding that the case could have been brought to trial within nine months; however, this is based upon the Court's estimate that such is the speed with which such a case could have been brought to trial if prosecuted with reasonable diligence and without Bio-Rad's unreasonable delay in producing documents. The Court adopts in principle the arguments presented by Nicolet to that effect.

II

In *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 217 USPQ 1185 (1983), the Supreme Court held that in view of the requirement in 35 U.S.C. § 284 that the court "shall award" the successful plaintiff in a patent infringement suit "damages adequate to compensate for the infringement,"

> prejudgment interest should ordinarily be awarded. In the typical case an award of prejudgment interest is necessary to ensure that the patent owner is placed in as good a position as he would have been had the infringer entered into a reasonable royalty agreement. An award of interest from the time that the royalty payments would have been received merely serves to make the

> patent owner whole since his damages consist not only of the value of the royalty payments but also of the foregone use of the money between the time of the infringement and the date of the judgment.

Id., 461 U.S. at 655-56, 217 USPQ at 1188.

The Court did not, however,

> construe § 284 as requiring the award of prejudgment interest whenever infringement is found. That provision states that interest shall be "fixed by the court," and in our view it leaves the court some discretion in awarding prejudgment interest. For example, it may be appropriate to limit prejudgment interest, or perhaps even deny it altogether, where the patent owner has been responsible for undue delay in prosecuting the lawsuit. There may be other circumstances in which it may be appropriate not to award prejudgment interest. We need not delineate those circumstances in this case.

Id., 461 U.S. at 656-57, 217 USPQ at 1189.

Justice Stevens wrote a brief concurring opinion, in which no other member of the Court joined, stating that "[i]n exercising its discretion to deny [prejudgment] interest in appropriate cases, the trial court may properly take into account the nature of the patent and the strength of the defendant's challenge." *Id.*, 461 U.S. at 658, 217 USPQ at 1189.

This court, however, recently held that a district court's justification for limiting prejudgment interest "must have some relationship to the award of prejudgment interest." *Radio Steel & Mfg. Co. v. MTD Products,* 788 F.2d 1554, 1557-58, 229 USPQ 431, 434 (Fed. Cir. 1986).

A. The normal procedure under *Devex* is to award prejudgment interest from the date of infringement to the date of payment, since only such award will satisfy "Congress' overrriding purpose [in section 284] of affording patent owners complete compensation." *Devex,* 461 U.S. at 655; *see, e.g., Smith Int'l, Inc. v. Hughes Tool Co.,* 229 USPQ 81, 102-03 (C.D. Cal. 1986); *Shiley, Inc. v. Bentley Laboratories, Inc.,* 225 USPQ 1013, 1020 (C.D. Cal. 1985) (supplemental memorandum), *aff'd,* 794 F.2d 1561, 1571, 230 USPQ 112, 117 (Fed. Cir. 1986).

Nicolet apparently began selling its infringing device in 1980, and the final judgment was entered in January 1983. Prejudgment interest thus ordinarily would have been awarded for at least 30 months. The district court, however, awarded such interest for only nine months, apparently on the theory that had it not been for Bio-Rad's undue delay and dilatory tactics during discovery, the case could have been brought to trial within nine months after filing.

The question is whether the grounds upon which the district court determined to award prejudgment interest only for nine months, as set forth in its findings, justified the district court's action. We conclude that the district court's limitation of prejudgment interest to nine months cannot stand.

The district court gave two grounds for limiting the period of prejudgment interest: (1) that "all but 9 months of the time spent by Bio-Rad in prosecuting the case prior to commencement of trial represents a period of undue delay and Bio-Rad should not be awarded prejudgment interest for that period of delay," and (2) Bio-Rad's counsel "engaged in dilatory action during the discovery process," which "should be taken into account" in determining prejudgment interest.

1. The basis for the court's finding that Bio-Rad's conduct during discovery delayed the trial of the case for six months is difficult to comprehend. The trial date was set at the first status conference in November 1981 for October 4, 1982; the trial commenced on October 5, 1982, only one day after the specified date. There is no indication that, but for the behavior of Bio-Rad, the trial could or would have begun earlier. Indeed, the discovery proceedings presumably were conducted after the first status conference, since the discovery schedule was established there. The scheduled trial date was met with only one day's delay, regardless of Bio-Rad's conduct during discovery. The finding by the district court that Bio-Rad delayed the beginning of the trial by six months is clearly erroneous.

The court's finding that "all but 9 months of the time spent by Bio-Rad in prosecuting the case prior to commencement of trial represents a period of undue delay," for which Bio-Rad should not receive prejudgment interest, is puzzling for another reason. Since the court awarded prejudgment interest only for nine months, this finding implies that all of the time from Nicolet's first infringement to the filing of the complaint also constituted "undue delay" by Bio-Rad.

The record does not support that conclusion. Bio-Rad filed its complaint almost exactly one year after Nicolet delivered its first infringing device, and less than eight months after the termination of efforts by the parties to resolve the dispute through correspondence. The time it took Bio-Rad to file suit did not constitute undue delay. *Cf. Shiley,* 225 USPQ at 1020 (no undue delay justifying reduction of prejudgment interest where suit filed nine months after plaintiff notified defendant of infringement).

2. The district court's finding that there had been "dilatory action during the discovery process" by Bio-Rad's counsel, "which should be taken into account when determining Bio-Rad's entitlement to prejudgment interest," does not support the limitation of prejudgment interest to nine months. There is no evidence in the record that such "dilatory action" delayed the trial. As noted, we held in *Radio Steel,* 788 F.2d at 1558, 229 USPQ at 434, that the justification for limiting an award of prejudgment interest "must have some relationship to the award of prejudgment interest." "Dilatory action" during discovery, without resultant delay in the trial, does not justify limiting the period of prejudgment interest.

The limitation of prejudgment interest to nine months cannot be justified as a sanction for abuse of the discovery process by Bio-Rad. A district court has available other sanctions to remedy abuses of the discovery process.

In sum, the district court's limitation of prejudgment interest to nine months cannot be sustained upon the basis of the district court's findings.

B. The district court's determinations that the appropriate rate of interest was the California rate of seven percent and that the interest should not be compounded, were based upon the same findings that underlie its determination that the appropriate period for such interest was nine months. The reasoning that led us to conclude that those findings either were clearly erroneous or did not support the nine-month limitation also compels invalidation of the seven percent uncompounded rate.

The rate of prejudgment interest and whether it should be compounded or uncompounded are matters left largely to the discretion of the district court. *Paper Converting Mach. Co. v. Magna-Graphics Corp.,* 745 F.2d 11, 24, 223 USPQ 591, 600 (Fed. Cir. 1984);

Gyromat Corp. v. Champion Spark Plug Co., 735 F.2d 549, 557, 222 USPQ 4, 9–10 (Fed. Cir. 1984); *Railroad Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1520, 220 USPQ 929, 942 (Fed. Cir. 1984); *Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056, 1066, 219 USPQ 670, 676 (Fed. Cir. 1983). In exercising that discretion, however, the district court must be guided by the purpose of prejudgment interest, which is "to ensure that the patent owner is placed in as good a position as he would have been had the infringer entered into a reasonable royalty agreement." *Devex*, 461 U.S. at 655,, 217 USPQ at 1188; *see Dynamics Corp. of Am. v. United States*, 766 F.2d 518, 520, 226 USPQ 622, 623 (Fed. Cir. 1985).

The district court gave no convincing reason why Bio-Rad's alleged delay in bringing the case to trial or alleged discovery improprieties warranted using a seven percent rate of uncompounded interest. Indeed, as noted, the only evidence in the record relating to the appropriate rate of interest suggests the use of either the prime rate or the rate that Bio-Rad paid on its corporate borrowings during the period of infringement.

C. Nicolet seeks to uphold the amount of prejudgment interest on the following alternative grounds:

> (1) Nicolet's challenge to the patent and its application to Nicolet's instrument was well justified; (2) Bio-Rad improperly withheld evidence and delayed production of documents essential to the proper presentation of Nicolet's case; and (3) the damages awarded in the case were unduly high....

Although a court of appeals may affirm the judgment of a district court on any ground, including grounds not relied upon by the district court, the application of that principle to this case is highly dubious. Since determining the amount of prejudgment interest lies largely within the district court's discretion, in deciding whether the district court properly exercised that discretion, we restrict our review to the stated basis upon which the district court acted and do not consider other grounds upon which the district court might have based its decision.

In any event, Nicolet's additional grounds for affirmance are unconvincing, and also constitute attempts to relitigate mattters long since laid to rest.

1. Nicolet's contention that its challenges to the patent were "well justified" reflects the position of Justice Stevens in his concurring opinion in *Devex*. We implicitly rejected that position in *Radio Steel,* where we ruled that the justification for an award of prejudgment interest "must have some relationship to the award of prejudgment interest." 788 F.2d at 1558, 229 USPQ at 434.

Moreover, since the purpose of prejudgment interest is to compensate the patentee for its "foregone use of the money [the royalty payments] between the time of the infringement and the date of the judgment," *Devex* 461 U.S. at 656, 217 USPQ at 1188, the merits of the infringer's challenges to the patent are immaterial in determining the amount of prejudgment interest. 5 D. Chisum, *Patents* § 20.03[4] at 20-172 (1986) ("It would seem that considering the strength of the case would not be appropriate if the guiding consideration is full compensation for the patent owner's loss"). Finally, Nicolet's arguments are substantially a repeat of those it made at the trial in contending that the infringement was not willful. Since the jury agreed with Nicolet on this issue, Nicolet had the benefit of avoiding an increase in the damages under 35 U.S.C. § 284 that might have resulted from a finding of willful infringement. Nicolet cannot now rely upon the alleged strength of its challenges to the patent as a basis for reducing the amount of prejudgment interest.

2. We have already discussed Nicolet's contentions regarding Bio-Rad's conduct during discovery. Nicolet sought a new trial on the basis of its allegations of Bio-Rad's abuse of discovery. The district court denied that request, and we specifically upheld that ruling in the prior appeal. 739 F.2d at 615, 222 USPQ at 662-63. In making this argument, Nicolet is seeking to relitigate issues that were settled at the trial and in the first appeal.

3. Nicolet's attempt to justify the reduction in prejudgment interest on the ground that damages were "unduly high" also involves an attempt to relitigate an issue previously settled. In the prior appeal, Nicolet argued that the damages were excessive. We discussed that contention at length and rejected it in our opinion. 739 F.2d at 615-17, 222 USPQ at 663-64. There is no reason for us to reconsider that ruling in connection with the award of prejudgment interest.

CONCLUSION

The order of the district court awarding prejudgment interest is vacated, and the case is remanded to the district court to redetermine the amount of prejudgment interest in accordance with this opinion.

VACATED and REMANDED

Appeal No. 86-840

United States Court of Appeals
for the Federal Circuit

BIO-RAD LABORATORIES, INC., ETC.,
Appeallant,

v.

NICOLET INSTRUMENT CORPORATION, ETC.,
Appellee.

BALDWIN, *Senior Circuit Judge,* concurring.

The trial court did not have the benefit of the opinion in *Radio Steel* at the time the prejudgment interest award was made. The majority's reliance on that opinion is therefore misplaced.

Civil Action No. C81-2553 LHB

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

BIO-RAD LABORATORIES, INC.,
a Delaware corporation,

Plaintiff,

v.

NICOLET INSTRUMENT CORPORATION,
a Wisconsin corporation,

Defendant.

ORDER FOR AWARD OF PREJUDGMENT INTEREST AND FINAL JUDGMENT THEREON

The plaintiff's motion for prejudgment interest having come on for hearing on September 13, 1985, and the parties having appeared and presented arguments through counsel, and the Court having considered the arguments and briefs submitted by each of the parties, as well as all other matters of record herein, the Court finds as follows: (1) Bio-Rad's conduct during discovery led to unreasonable delays in bringing the case to trial and in entry of judgment; (2) but for those delays, trial of the case could have commenced in nine months, rather than in the approximately 15 month period actually consumed from filing of the Complaint on June 22, 1981 until commencement of trial on October 4, 1982 and judgment could therefore have been entered earlier; (3) all but 9 months of the time spent by Bio-Rad in prosecuting the case prior to commencement of trial represents a period of undue delay and Bio-Rad should not be awarded prejudgment interest for that period of delay; (4) Bio-Rad's counsel engaged in dilatory action during the discovery process, which should be taken into account when determining Bio-Rad's entitlement to prejudgment interest; and (5) based on the findings (1), (2), (3) and (4) above, the appropriate term over which prejudgment interst shall be calculated

is nine months and an appropriate rate of interest in this case is the California state rate of prejudgment interest, 7%, uncompounded.

The Court recognizes the necessarily inexact nature of its finding that the case could have been brought to trial within nine months; however, this is based upon the Court's estimate that such is the speed with which such a case could have been brought to trial if prosecuted with reasonable diligence and without Bio-Rad's unreasonable delay in producing documents. The Court adopts in principle the arguments presented by Nicolet to that effect.

Accordingly, it is hereby Ordered and Adjudged:

1. That plaintiff's motion for prejudgment interest is GRANTED.

2. That plaintiff Bio-Rad Laboratories, Inc. shall recover of defendant Nicolet Instrument Corporation, as prejudgment interest, the sum of $161,595.

SO ORDERED.

Dated: December 9, 1985

Lloyd H. Burke
United States District Judge

Appeal No. 86-840

United States Court of Appeals for the Federal Circuit

BIO-RAD LABORATORIES, INC., ETC.,
Appellant,

vs.

NICOLET INSTRUMENT CORPORATION, ETC.,
Appellee.

Judgment

ON APPEAL from the United States District Court for the Northern District of California in CASE NO(S). Civil Action No. C81-2553 LHB. This CAUSE having been heard and considered, it is ORDERED AND ADJUDGED: VACATED and REMANDED.

Dated: December 16, 1986

ENTERED BY ORDER OF THE COURT
Francis X. Gindhart, Clerk

ISSUED AS A MANDATE: February 26, 1987

A True Copy.
Attest: February 26, 1987

Betty A. McKenna, Deputy Clerk

Appeal No. 86-840

United States Court of Appeals
for the Federal Circuit

BIO-RAD LABORATORIES, INC., ETC.,
Appellant,

v.

NICOLET INSTRUMENT CORPORATION, ETC.,
Appellee.

Before FRIEDMAN, Circuit Judge, NICHOLS and BALDWIN, *Senior Circuit Judges.*

ORDER

A petition for rehearing having been filed in this case,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, denied.

The suggestion for rehearing *in banc* is under consideration.

FOR THE COURT

Francis X. Gindhart, Clerk

Date: 1-20-87

cc: Mr. Robert Barr
Mr. Robert J. Sheran

Appeal No. 86-840

United States Court of Appeals
for the Federal Circuit

BIO-RAD LABORATORIES, INC., ETC.,
Appellant,

v.

NICOLET INSTRUMENT CORPORATION, ETC.,
Appellee.

ORDER

A suggestion for rehearing *in banc* having been filed in this case,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing *in banc* is declined.

FOR THE COURT

Francis X. Gindhart, Clerk

Date: 2/2/87

cc: Mr. Robert Barr
Mr. Robert J. Sheran

United States Court of Appeals
for the Federal Circuit
717 Madison Place, N.W.
Washington, D.C. 20439 Patent Case Appeals

TOWNSEND and TOWNSEND
Albert J. Hillman
Roger L. Cook
J. Georg Seka
David N. Slone
One Market Plaza
Steuart Street Tower, 20th Floor
San Francisco, California 94105
Telephone: (415) 543-9600
Attorneys for Plaintiff

Civil Action No. C81-2553 LHB

United States District Court
for the Northern District of California

BIO-RAD LABORATORIES, INC.,
a Delaware corporation,

Plaintiff,

v.

NICOLET INSTRUMENT CORPORATION,
a Wisconsin corporation,

NOTICE OF APPEAL
FROM ORDER FOR AWARD OF
PREJUDGMENT INTEREST AND
FINAL JUDGMENT THEREON

Notice is hereby given that Bio-Rad Laboratories, Inc., Plaintiff above-named, hereby appeals to the United States Court of Appeals

for the Federal Circuit from the Order for Award of Prejudgment Interest and Final Judgment Thereon dated December 9, 1985.

TOWNSEND and TOWNSEND

Dated: January 7, 1985

By Roger L. Cook
Attorneys for Plaintiff

RLC:sbl
BIORA5/0106215

PROOF OF SERVICE BY MAIL

I am a citizen of the United States and am employed in the City and County of San Francisco, State of California, am over the age of eighteen years, and am not a party to the above-entitled case. My business address is One Market Plaza, Steuart Street Tower, 20th Floor, San Francisco, California 94105. I served the foregoing NOTICE OF APPEAL FROM ORDER FOR AWARD OF PREJUDGMENT INTEREST AND FINAL JUDGMENT THEREON by depositing a true copy thereof in the United States Mail in San Francisco, California, on January 7, 1986 enclosed in a sealed envelope, with the postage thereon fully prepaid, addressed as follows:

William C. Egan III, Esq.
Glehr, Hohbach, Test,
Albritton & Herbert
Four Embarcadero Center
Suite 3400
San Francisco, CA 94111

Robert J. Sheran
Lindquist & Vennum
4200 IDS Center
80 South Eighth Street
Minneapolis, Minn. 55402

I declare under penalty of perjury that the foregoing is true and correct.

Dated: January 7, 1986.

Susan Baker-Lehne

Standpoint of opinion or discretion. Were I in the position of defense counsel, I would have said, "We have a strong case on appeal, because had our discovery not been frustrated by the district court prior to trial, we would have been able to consistently establish facts which would have shown a fraud on the patent office, and the patent would have been ruled invalid by reason of that fraud. And now, even though that discovery came belatedly, and the introduction of the evidence establishing the fraud was introduced in a fashion which covers the record, but certainly failed to influence the jury in the manner in which it could have influenced that jury, had we been able to tailor our defense with the knowledge of what the true facts were, we might not have only defeated the fraud claim — or the infringement claim, but we might have been able to get some damages on our own on the misuse counterclaim." And quite frankly, I would not have been very surprised had the jury made such a finding.

And were I a lawyer — that's a broad assumption — in the position of Nicolet, I would have emphasized the frustration of discovery by the plaintiff in the pretrial period. I really think that this court may very well have participated in a miscarriage of justice, insofar as the denial of discovery in those areas which were claimed to have been privileged.

I think had that material been available before trial, and utilized during trial — it may be that I'm too far removed from the patent field to fully appreciate the niceties of patent law — but a good personal injury lawyer would have taken that plaintiff's case apart on that fraud issue.

Mr. Cook: Your Honor the — the issue — or the so-called issue of abuse of discovery was presented in some depth in — on the appeal, and a substantial portion of both the appellant's and the appellee's briefs were devoted to it.

The Court: Well, unless I'm mistaken, the color of the discovery hearings was necessarily lost in the appellate process. That started out with transcripts from the hearings before the magistrate, which were only partially considered by this court. All in all, I think that this case is a very good example of how the admixture of privilege and percipient witness on the part of lawyers has been misused or misconstrued.

I think that the reviews of a lawyer which have been categorized as privileged, but which have necessarily been known to a party who

must proceed in his litigation in good faith, should have been patently available to the defendant right from the start. The importance of that particular document — or not "document" — series of documents, as well as the manipulation that went through the negotiations between the inventor and the licensee later on, I don't think were fully explored. And I'm not so sure that Du Pont was not handled with kid gloves in this case in such fashion as to perhaps mislead a jury. But that's over and done with.

But I do believe, however — and this is in anticipation of what I'll hear from other counsel — I think those are factors which should be considered in connection with both costs and — and interest. Again, we're getting into this area of discretion, and I don't know how much discretion I have. Meaning it in both ways, personal discretion and legal discretion.

Mr. Cook: Your Honor, I'm not sure how to bring the — the issue quite back to — to summary judgment. If your honor is disposed to granting the motion for summary judgment at this point, I will continue further. I seem to sense that you're not so disposed, and I —

The Court: Maybe you better continue anyway. Change my tentative opinion.

Mr. Cook: The issue — the issues that must be — that the infringer has to confront, as I say, are first of all, did he have a belief that he was — did he have a belief that he had a right to continue doing what he's doing, and second of all, did he have a reasonable basis for that belief?

The Court: Well, wait a minute now, we've got — we've got two —two possibilities in that — that question you've asked.

Mr. Cook: More than that.

The Court: Did he believe that he had a right to continue in the sense that his position was founded on facts

Raymond Linkerman, CSR, Official Reporter, U.S. District Court